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No. 1583

Supreme Court, U.S.
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IN THE

Supreme Court of the United States

October Term, 1970

VEB CARL ZEISS JENA; STEELMASTERS, INC.; ERCONA CORPORATION,

Petitioners,

v.

CARL ZEISS STIFTUNG, doing business under the name and style of CARL ZEISS; and ZEISS IKON A.G.,

Respondents.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

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v.

CARL ZEISS STIFTUNG, doing business under the name and style of CARL ZEISS; and ZEISS IKON A.G.,

Respondents.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

Petitioners, VEB Carl Zeiss Jena, Steelmasters, Inc. and Ercona Corporation, pray that a writ of certiorari issue to review a judgment of the United States Court of Appeals for the Second Circuit entered on November 2, 1970.

Opinions Below

The opinion of the court of appeals is reported at 433 F.2d 686 and is printed as Appendix D.* The district court wrote two opinions. The first, on the trademark ownership question, is reported at 293 F.Supp. 892 (in abridged form) and at 160 U.S.P.Q. 97 (in full text)

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* The Appendices to this Petition ("App. —") have been separately bound.

and is printed as App. E. The second opinion, on the antitrust misuse defense, is reported at 298 F.Supp. 1309 and printed as App. F.

Jurisdiction

The judgment of the court of appeals (App. A) was entered on November 2, 1970. A petition for rehearing was denied by order dated December 16, 1970 (App. C). This Court's jurisdiction is invoked under 28 U.S.C. 1254(1).

Questions Presented

1. Whether, notwithstanding the postwar partition of Germany, the courts below properly decided questions relating to the status, identity and existence of a juristic entity created and domiciled in the territory of East Germany by applying West German rather than East German law, despite the accepted private international law principle that such questions must be determined by the laws of the country where the juristic entity has been created and continues to exist.

2. Whether the court of appeals abdicated its functions as reviewing court under Rule 44.1, FRCP, by affirming the district court's ruling on West German law on the basis of the relative credibility of expert witnesses and without itself making an independent investigation of the foreign law materials and sources.

3.(a) Whether the antitrust misuse defense provided in section 33(b)(7) of the Lanham Act is available as a defense in trademark infringement suits.

(b) Whether the antitrust misuse defense is unavailable against enforcement of a trademark integrally involved in antitrust violations unless it be shown that

the mark, separate and distinct from the goods it identifies, was itself the effective instrumentality of the antitrust violations.

4. Whether established principles of trademark law require the entry of a decree permitting concurrent use of the trademarks by both parties to this infringement suit, where plaintiffs long acquiesced in and encouraged the use of the marks on defendants' goods, the quality of which admittedly entitles them to bear the marks, and where the American public has an interest in continued access to goods from both sources.

Statute and Rule Involved

Section 33(b) of the Lanham Act (15 U.S.C. 1115b) and Rule 44.1, FRCP, are set forth in the Supplement appended to this Petition.

Statement

This trademark infringement suit concerns the United States rights to the world-renowned "Zeiss" name and marks, which for more than a century have identified the optical and mechanical precision instruments produced at the Zeiss Works in Germany. It presents important issues of private and public international law and of American trademark and antitrust law which warrant this Court's review.

The suit, one of the many litigated since the postwar partition of Germany in some thirty nations, involves two entities. Each is known as the Carl Zeiss Stiftung *. One is located in Jena, in East Germany, the original seat of the Zeiss enterprise; the other, in Heidenheim, in West Ger-

* A "Stiftung", analogous to our foundation, is a German juristic entity which acquires legal existence on approval of the founding documents by a German state.

many. Each entity insists that it is the true Zeiss Stiftung, which admittedly owns the "Zeiss" name and marks.

The Zeiss Stiftung was established in Jena and remained domiciled there until at least 1948. Its principal commercial establishments, the Zeiss Works and the Schott Works, were also in Jena. In 1945, shortly before the Russians occupied the city, the six managers of the Works and about a hundred other employees were removed to Heidenheim in the American zone, where they subsequently organized an affiliated enterprise. In June 1948, the Soviet Military Administration nationalized the Jena Works converting them to "people's owned enterprises" (VEB's). The Stiftung and its other properties were not expropriated. The former managers now claimed that the Stiftung could no longer legally exist in Jena and they caused the authorities of Wuerttemberg, where Heidenheim was situated, to establish a new Stiftung domicile there in February 1949.

This was the genesis of the trademark dispute.

The close relationship between Zeiss and Jena.

The Zeiss enterprise in Jena consists of the Zeiss Works, established by Carl Zeiss in 1846 to manufacture optical instruments, and the Schott Works, organized some years later to manufacture optical glass.

In 1889, shortly after Zeiss' death, Dr. Ernst Abbe, his partner and a former University of Jena professor, founded the Stiftung. Its charter, approved by the State of Thuringia (where Jena was located), charged it with fostering and promoting research and teaching in optics at the Zeiss Works and the University of Jena; maintaining and expanding the Works in Jena; and taking steps to improve the economic and social conditions of the workers and their fellow citizens in that city.

The charter evidences the close interdependency of the Stiftung and the Jena community. It explicitly directs that

the legal domicile of the Stiftung must always be Jena, under no circumstances to be removed from that city; that the Zeiss and Schott Works must never be transferred from Jena; and that, if the Stiftung should ever be dissolved, its assets must be divided between the city of Jena and its University. The charter further provides that the Stiftung's administration shall at all times be vested in that government office of Thuringia charged with the administration of the University of Jena.

The military occupation of Jena and departure of the Zeiss managers.

The American forces occupied Jena in April, 1945. The Stiftung was then being administered by the notorious Fritz Sauckel, the Nazi slave labor chief soon to be condemned to death at Nuremberg. The management of the two Works consisted of two boards, each having three members, all also members of the Nazi Party. In June, 1945, shortly before Jena was occupied by the Russians, the six managers and 132 other employees were quickly removed to Heidenheim. Eleven thousand employees, however, remained at the Jena Works and promptly set about to restore them to production.

Before their departure, the managers selected six trusted employees to take over the Works' management, and they thereupon assumed full responsibility. There is a dispute as to whether the departing managers intended to and actually did resign and whether the new managers formally succeeded to board membership; or whether instead the new managers were intended to act only as caretakers in the absence of their predecessors. The fact is, however, that the old managers never returned to Jena and that the new managers assumed all management functions and were universally recognized as constituting the new boards.

The nationalization of the Works.

In 1948, the Zeiss and Schott Works were nationalized. This was the last step in a process begun shortly after the German surrender. In 1945, under a Soviet order issued pursuant to the Allied policy for the demilitarization and denazification of Germany and the reorganization of the Germany economy (and similar to American, British and French military orders in the other zones), the Jena Works were sequestered. Then, in 1948, the Thuringia regional expropriation commission determined that since the Works had primarily engaged in Nazi war production and been controlled by Nazis, their nationalization was mandatory under the Potsdam agreement and the implementing Russian directives. That ruling was confirmed by the German Economic Commission, the central administrative and legislative agency of the Soviet Military Administration. The nationalization decrees followed.

The decrees dealt only with the Works. They did not refer to the Stiftung or any of its other facilities and properties. The Stiftung continued in Jena and engaged in its various health, educational and cultural activities. It continues in Jena to this day.

The establishment of the Heidenheim domicile.

The former managers in Heidenheim now caused the Wuerttemberg authorities to issue the administrative act, in February 1949, purporting to amend the Stiftung charter to provide a dual domicile, Jena *and* Heidenheim; and declaring that the old managers now constituted the administration of the Stiftung. All this, however, was concealed from Jena. Heidenheim continued to do business with the nationalized Works, purchased "Zeiss"-marked goods produced there and resold them through their West German sales outlets. In 1954, when the productive capacity of the Heidenheim enterprise was deemed suf-

ficient to meet Western demands, the Wuerttemberg authorities declared the Jena domicile cancelled and Heidenheim the sole domicile.

The continued use of the "Zeiss" trademarks on the Jena goods.

In the United States, the "Zeiss" trademarks, and especially the classic "Carl Zeiss Jena" mark, continued to be applied on Jena goods until the judgment below was entered in 1969, even as they had been since at least the turn of the century. The marks were, however, not used on Heidenheim goods until 1953, and then only in the form "Carl Zeiss" with "Jena" omitted.

The Jena goods admittedly have always met the highest standards for "Zeiss" quality. The Jena enterprise has continued to foster research and development in the optical sciences. The ten Zeiss plants in East Germany (three in Jena) now have an annual sales volume exceeding 400 million marks; more than 60% of the goods are exported abroad, 25% to non-socialist countries. They employ more than 21,000 persons, half descendants of past generations of Zeiss workers. They engage 1,300 employees in an ambitious research and development program. Their production consists of a wide range of complex instrumentation, more than 400 new instruments having been introduced since 1945. Sales of Jena goods in the United States alone amounted to 6½ million dollars during the period from 1950 to 1966.

Heidenheim's belated claims to the marks.

Heidenheim did not claim ownership of the "Zeiss" trademarks until 1950, two years after nationalization of the Jena Works. Even then, they urged Jena to continue to produce goods under the marks because only with Jena's help could they meet the rising demand and protect the

"Zeiss" goodwill. They asked Jena to enter into a cartel arrangement for the joint use of the name and marks and for a division of the world markets. Jena, however, refused to accept this proposal or Heidenheim's claim to the marks. Finally, in 1954, despairing of obtaining Jena's acquiescence, Heidenheim instituted suit in the West German courts.

The judgment there, however, barred Jena from using the marks only in West Germany. Jena goods continued to be exported under the "Zeiss" marks to the United States and elsewhere. Here, the Attorney General, who claimed ownership to the marks under a World War I vesting order and at first granted permission to imports from Jena, sought to bar further imports after 1955. Petitioners Steelmasters, Inc. and Ercona Corporation, Jena's American distributors, thereupon commenced an action in the United States District Court for the District of Columbia and there obtained an injunction restraining any interference with importation of Jena "Zeiss"-marked goods, which the court adjudged were "in all respects what . . . [the "Zeiss" mark] has always signified . . . to the trade and consuming public in the United States". *Ercona Camera Corp.* v. *Rogers,* 120 U.S.P.Q. 100 (D.D.C. 1958), *aff'd, sub. nom. Rogers* v. *Ercona Camera Corp.,* 277 F.2d 94 (D.C. Cir. 1960). Although Heidenheim was fully informed about the *Ercona* suit and assisted the Attorney General in his defense, it at no time intervened or asserted any claim of ownership to the marks.

The present action, commenced in 1962, was the first time Heidenheim asserted any rights to the "Zeiss" marks in an American court.

The proceedings below.

Respondents (plaintiffs) are the Heidenheim Foundation and its wholly-owned subsidiary, Zeiss Ikon, A.G.

(which claims the "Zeiss-Ikon" trademarks for cameras and photographic equipment). Petitioners are VEB Carl Zeiss Jena, which operates the nationalized Zeiss Works in Jena, and two of its United States distributors.

The complaint alleged that respondent had the exclusive right to the "Zeiss" name and marks; charged infringement, unfair competition and false description and designation of the Jena goods by petitioners; and sought declaratory relief, damages and an injunction. The answer denied the principal allegations of the complaint and asserted several affirmative defenses, among them antitrust misuse of the marks and laches and acquiescence by respondents. Counterclaims were also interposed for damages resulting from the antitrust violations.

The antitrust misuse defense and counterclaims and the damage issues were severed, and the trademark ownership issues were tried first. On November 7, 1968, the district court handed down its first decision. It held that the Heidenheim Foundation was identical to the Zeiss Stiftung; that it was entitled to exclusive use of the "Zeiss" name and marks in the United States; that petitioners had since 1953 been infringing those marks and falsely designating Jena goods as those of a licensee of the Stiftung; and that respondents were entitled to damages and injunctive relief (App. E, pp. 152-53).

The antitrust counterclaims and damage issues were then severed, and the antitrust misuse defense tried. On March 12, 1969, the district court handed down its second decision, dismissing that defense on the ground that even if respondents were guilty of antitrust violations, petitioners had failed to establish that the trademarks, separate and distinct from the goods, were themselves the direct instrumentality of the antitrust violations (App. F, pp. 12-14).

On April 1, 1969, the district court entered its judgment, *inter alia* declaring that respondents had exclusive rights

to the "Zeiss" name and marks, enjoining petitioners from using the name and marks on Jena goods or "in any other manner", dismissing the antitrust misuse defense, and providing that respondents should recover damages, an accounting of petitioners' profits and costs of the suit (App. B). On stipulation of the parties, trial of the counterclaims and the damage issues has been deferred pending appeal.

The court of appeals handed down its decision on November 2, 1970 (App. D). It modified the district court judgment by deleting the provisions for damages and an accounting, and in all other respects affirmed the judgment. The modification was made on the ground that petitioners were not wilful infringers, had not acted in bad faith or engaged in fraud or palming off of their goods as respondents', and should therefore not be held liable for damages or an accounting of profits (App. D, pp. 4538-40).

A petition for rehearing (and suggestion for rehearing in banc) was denied on December 16, 1970 (App. C).

Reasons for Granting the Writ

This is a trademark infringement suit, but it is also a dispute between an East German and a West German entity. Although there was substantial agreement on the applicable rules of law, the courts below nevertheless disregarded them because they brought to this case the cold war predilections and attitudes against which this Court recently cautioned in *Zschernig* v. *Miller,* 389 U.S. 429 (1968), a case also involving rights of East German nationals. Marked by such irrelevant criteria, the decisions below violate fundamental principles of private international law, read the antitrust misuse defense out of the trademark law in disregard of Congress' intent, and breach established principles of trademark law which require permitting both parties concurrent use of the disputed marks. The court of appeals additionally abdicates its responsi-

bility, under Rule 44.1, FRCP, to review the district court's foreign law determinations.

Review by this Court is warranted because important questions of federal law are involved, which have not been but should be settled by this Court, and also because the decisions below in several respects so far depart from the accepted course of judicial proceedings as to call for the exercise of this Court's supervisory power.

I

The refusal to apply East German law in determining the questions of the status and identity of the Zeiss Stiftung violates principles of private international law and calls for the exercise of this Court's supervisory power.

Since it was agreed that the Zeiss Stiftung is the owner of the "Zeiss" name and trademarks, it was necessary to determine which of the two rival foundations is the true Stiftung, that in Jena or that in Heidenheim. This in turn presented two questions: (a) Did the 1948 nationalization of the Jena Works terminate the Stiftung's capacity to exist and function as a juristic entity in Jena? (b) In any event, did the Wuerttemberg acts establishing Heidenheim as the new Stiftung domicile legally effect its transfer to that West German city?

The decisions below recognize that the American choice-of-law rule, consistent with accepted principles of private international law, requires that questions of the "legal existence, status, identity, and domicile of a foreign corporate entity or juristic personality . . . must be determined by the laws of the country where it has been created and continues to exist" (App. D, p. 4521; App. E, p. 88). See, also, Restatement, Second, Conflict of Laws, Proposed Official Draft, Part III, § 229 (1969) ("Whether the existence of a corporation has been terminated or suspended is de-

termined by the local law of the state of incorporation."); *Id.* § 303(2); Reese & Kaufman, *The Law Governing Corporate Affairs,* 58 Colum. L. Rev. 1118, 1125-26 (1958); *Petrogradsky M.K. Bank* v. *National City Bank,* 253 N.Y. 23, 30, 31 (1930, Cardozo, C.J.).

They accept also that Germany is now "a divided country" and that, in our government's view, the West German government does not have sovereignty or territorial jurisdiction *de facto* or *de jure* over East Germany, that rather East Germany remains under the control of the Soviet Union and that its government is an "agency and instrumentality" of the Soviet Union (App. D, pp. 4521-22, n. 23; App. E, pp. 121, 124-25).* Thus, since the surrender of Germany (and at the times the significant operative acts affecting the Stiftung occurred), separate and different legal systems have existed in West Germany and in East Germany. See, *infra,* pp. 14-15.

As it is common ground that the Zeiss Stiftung was created in Jena and remained domiciled there until at least 1948, the status, identity and domicile of the Stiftung must then be determined by applying East German law. But, the decisions below deliberately reject that law and instead apply West German law.

East German law is clear. The Supreme Court of East Germany has on several occasions unambiguously declared that the nationalization of the Jena Works did not impair the Stiftung's capacity to exist and function in Jena, that the Stiftung has continued there as a juristic entity, that the Jena Foundation is that Stiftung, and that the purported transfer of domicile to Heidenheim was unlawful and ineffective.

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* "This means that the Federal Government [of West Germany] cannot act in regard to the Soviet zone, whether by legislation, by administrative acts, or otherwise. . . ." Mann, *Germany's Present Legal Status Revisited,* 16 Int'l & Comp. L. Q. 760, 789 (1967). See, also, Bathurst & Simpson, *Germany and the North Atlantic Community, A Legal Survey* (1956) at p. 188; *Contemporary Practice of the United States Relating to International Law,* 57 Am. J. Int'l L. 403 (1963); see *Zschernig* v. *Miller,* 389 U.S. 429, 449, n. 7 (Harlan, J., concurring) (1968).

Every court in the world which has dealt with this issue in the *Zeiss* cases has held East German law controlling and, under that law, the Jena Foundation legally identical with the Zeiss Stiftung. *VEB Carl Zeiss Jena* v. *Firma Carl Zeiss, Heidenheim*, [1965] Entscheidungen des Schweizerischen Bundesgerichts 117 (Swiss Federal Supreme Court); *Carl-Zeiss-Stiftung* v. *Rayner & Keeler, Ltd.*, [1966] 2 All E.R. 536, 556-59, 561-62, 568, 574-75, 588-92 (House of Lords); *Carl-Zeiss-Stiftung of Heidenheim* v. *Carl-Zeiss-Stiftung Jena*, PLD 1968 Karachi 276, 296-97, 300-03 (High Court of West Pakistan); *Jenaer Glaswerk Schott & Gen., Mainz* v. *VEB Jenaer Glaswerk Schott & Gen., Jena*, Oslo Town Court (Norway), March 18, 1969; see, also, *Re Carl Zeiss Pty. Ltd.'s Application*, [1969] 43 ALJR 196 (Australia)*. The decisions of the courts below stand alone!

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* The decision of the Swiss Federal Supreme Court is typical:

> "That foreign law [to be applied in determining whether the purported change of domicile to Heidenheim was valid] can only be the law of GDR [the German Democratic Republic]. It is there that Jena, the domicile of Carl-Zeiss-Stiftung, is situated. Whether and how that domicile can be changed . . . is only for the law of GDR to decide. Neither the law system of the Federal Republic of Germany nor any decrees of its authorities could or can by a 'change of domicile' deprive GDR of Carl-Zeiss-Stiftung. Since the occupation of the East Zone, Carl-Zeiss-Stiftung has owed its continued existence exclusively to the law enforced there, not to the law of the Federal Republic of Germany. This means that neither the Stiftung organs evacuated to the West nor the authorities of Baden-Wuerttemberg could declare the East German Carl-Zeiss-Stiftung their own. The only thing they could do was to create a new foundation."

The opinions in the House of Lords are to the same effect. Thus, Lord Guest:

> ". . . The law to be applied is the law of the domicile of the Stiftung, which is in Jena, and the law is that of East Germany as shown by 'its exposition, interpretation and adjudication'

(Footnote continued on following page)

Several reasons are given why East German law should be rejected, but none withstands analysis. First, East German law is said to be irrelevant because with the adoption of the German Civil Code in 1900, the German foundation became a creature of federal German law and the separate state law systems previously governing them were largely supplanted. Because of this, we are told, section 87 of the federal Civil Code empowers the state of Wuerttemberg, as one member of the German Federation, to transfer to itself a foundation from another state of the Federation, Thuringia (App. D, pp. 4522-23; App. E, pp. 101-02).

What the courts below conveniently ignore, however, is that (whatever the German law may have been from 1905 to the end of World War II) when Wuerttemberg purported to transfer the Zeiss Stiftung in 1949, there was no longer a German Federation of which Wuerttemberg and Thuringia were constituent member states. In June 1945, the victorious Allies had divided Germany into four separate zones, where "Supreme authority . . . [was to be] exercised . . . by the British, United States, Soviet and French Commanders-in-Chief, each in his own zone of occupation . . . ." Ruhm von Oppen, *Documents on Germany under Occupation, 1945-1954,* pp. 36, 42 (1955). Each zone thus became a distinct jurisdictional entity, and the authorities in one had no jurisdiction over the affairs in another. *Deutsches Reich* v. *Weinberger,* 7 Supreme Restitution Court 231, 232 (1957); see, also, Clay, *Decision in Germany,* pp. 73, 138-39, 393 (1950). The state of Thuringia, in the Russian zone, was governed by the Soviet

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(Footnote continued from preceding page)

. . . in this case one starts with the judgment of the East German courts that the Carl Zeiss Stiftung still exists as a juristic person, notwithstanding the confiscation of its assets in East Germany by the Soviet authorities. . . ." ([1966] 2 All E.R. 536, 568)

Accord: Lord Reid, *Id.* 556; Lord Upjohn, *Id.* 574; Lord Wilberforce, *Id.* 588, 589.

authorities; Wuerttemberg, in the American zone, by the American military authorities. And although gradually the Western zones fused, culminating in the establishment of the Federal Republic of Germany in late 1949, the Soviet zone remained a completely separate jurisdictional entity, and so it remains today. See Cohn, *German Legal Science Today*, 2 Int'l & Comp. L.Q. 169, 170 (1953). Indeed, as noted *supra*, p. 12, our own government insists that this is the legal status of East Germany.

Disregard of East German law cannot therefore be justified on the premise of an extant German federal law governing foundations throughout Germany. For Thuringia, where the Zeiss Stiftung was created and continued to exist until at least 1948, and Wuerttemberg, to which it was purportedly transferred in 1949, were not then and are not now members of one German Federation.

The second reason offered for not applying East German law is that the pertinent judgments were rendered in actions to which the Heidenheim Foundation was not a party * and lacked a "reasoned objective approach" and were "saturated with Communist propaganda . . . and absence of judicial restraint" (App. D, p. 4525; App. E, p. 111). That the Heidenheim Foundation was not a party to the suits might deprive the East German judgment of *res judicata* effect, but it certainly does not impair their authority on East German law. Nor does our courts' distaste for the tone and ideological orientation of the East German judgments diminish their authority in that respect. Indeed, as Lord Wilberforce suggested in the

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* The court below notes, however, that the Heidenheim Foundation did receive notice of the commencement of one of the suits but returned it because in its view the East German tribunals were not legally constituted courts (App. D, p. 4524, n. 25).

House of Lords, their political cast may well make them more persuasive authority. [1966] 2 All E.R. at 591.*

Unquestionably the principal reason why the courts below refused to honor East German law (although they never clearly articulate it) is their disapproval of the Russian nationalization of the Works. They regard this as so offensive to American policy (which the district court found "favored postwar reconstruction of a demilitarized Germany . . . with a free private enterprise-type of economy in contrast to the communization in the Soviet zone" (App. E, p. 37)) that they consider themselves obligated to frustrate the effects of the nationalization even by "overlook[ing] technical niceties of the law" (*Id.* at 86).

The issue is, however, a red herring. First, the East German courts have held that the nationalization was limited to the Works and that the "Zeiss" name and marks were not expropriated and remain the property of the Stiftung. The legal effect of a foreign expropriation decree is, of course, determined by the jurisdiction issuing it. *United States* v. *Pink,* 315 U.S. 203, 220 (1942).

Second, the nationalization of the Works in 1948 was not opposed to Allied postwar policy in Germany. At Yalta and Potsdam, the Allies had agreed to take all steps necessary to assure that Germany could never again inflict war on the world and committed themselves to the de-

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* In contrast to our courts' preference for the West German judgments, Lord Reid was not impressed with their logic at all (noting that they were in any event irrelevant as to East German law) and instead found the East German judgments, although marked by hyperbole and "plentifully sprinkled with communist cliches", displaying "a judicial approach and a reasonable result". [1966] 2 All E.R. at 558. He cogently concluded that "even if political considerations were apparent, it would remain true that what the courts have decided is in fact the law which is being enforced in the foreign country." *Ibid.*

nazification and demilitarization of the German state and its economy. Protocol of Proceedings of Crimea (Yalta) Conference, *Foreign Relations of the United States, The Conference at Malta and Yalta, 1945,* vol. 2, p. 148. Differences later developed among the Allies, but when the occupation began, each Allied military administration sequestered, expropriated and reorganized German property and businesses in its zone. The Control Council (representing all the four Allied powers) expropriated property of Germans outside Germany. *Military Government Gazette, Germany, British Zone of Control,* pp. 27-34, 40-41, 243-46. Indeed, the American authorities considered seizing the Zeiss Stiftung's assets in the American zone, and together with the British they maintained the coal and iron and steel industries in the two zones under public ownership even after the nationalization of the Jena Works in 1948. See *Dept. of State Bulletin,* June 20, 1948, pp. 807, 809-10; *Military Government Gazette, Germany, U. S. Area of Control,* p. 22, 16 Dec. 1948.

Of course, there was no provision for payment of compensation to the German owners, who had been responsible for the prosecution of the war and many of whom were ultimately imprisoned or executed as war criminals. Even the United States confiscated German property. At the very time the Russians nationalized the Works in Jena, the American Military Tribunal ordered the confiscation of the vast Krupp complex, *United States* v. *Krupp,* 9 Trials of War Criminals Before the Nuremberg Tribunals 1327, 1450 (July 31, 1948); and that order was confirmed by the American Commander, General Clay, *Id.* 1486-87. See Manchester, *The Arms of Krupp,* pp. 596 *et seq.* (1968); cf. *Aris Gloves, Inc.* v. *United States,* 420 F.2d 1386 (Ct. Cl 1970) (postwar confiscation of American-owned plant in East Germany); *Young* v. *United States,* 97 U.S. 39 (1878); *Lamar* v. *Browne,* 92 U.S. 187 (1876); *Juragua Iron Co.* v. *United States,* 212 U.S. 297 (1909).

Certainly, nationalization of the Jena Works was amply warranted. They had served as leading enterprises in the Nazi war program. Their managers had all been Nazi Party members, and two of them, leading members of the Nazi Main Committee for War Production. To condemn the Jena nationalization as offensive to Allied policy is to falsify history.

Moreover, there was no private owner here, as in the usual foreign expropriation case. The proprietor of the Jena Works was the Zeiss Stiftung, an impersonal entity charged by its charter to apply all profits for the benefit of the workers (as wages, pensions and other employee benefits); the expansion of plant and research facilities in the Works; the University of Jena (as grants for research and teaching in optics); and the general community of Jena (as grants for the establishment, operation and expansion of hospitals, schools, kindergartens and similar municipal facilities). The only change the nationalization effected was that legal title to the Works was transferred from the Stiftung to "the people". But the same beneficiaries, the workers, plants, University and citizenry of Jena, continued to enjoy the profits of the enterprises. The loss they suffered was not from the nationalization, but rather from the decree below, which deprived them of the benefits previously available from exploitation of the "Zeiss" trademarks in the United States.

The reasons offered for not honoring East German law below, therefore, just do not parse. And the failure to apply that law in deciding the Stiftung's status violates basic principles of private international law which long have been the cornerstone of relations among civilized states. Review by this Court is vital.

II

The court of appeals' abdication of its duty under Rule 44.1, FRCP, to review the district court's determinations of German law calls for the exercise of this Court's supervisory power.

Not only do the decisions below err in refusing to accept East German law as controlling; the review by the court of appeals of the district court's determinations of West German law, regarded as controlling, violates the explicit mandate of Rule 44.1 of the Federal Rules of Civil Procedure. That Rule directs that determinations of a district court on foreign law "shall be treated as a ruling on a question of law" (Supp., *infra*, p. 30). The "clearly erroneous" standard, therefore, no longer governs review of foreign law decisions, and courts of appeals must themselves consider all relevant materials and sources and for themselves decide whether the lower court's rulings are correct. Moore's *Federal Practice* §§ 44.1.01, 44.1.05 (2d ed. 1969); *First National City Bank* v. *Compania de Aguaceros, S.A.*, 398 F.2d 779 (5th Cir. 1968); Miller, *Federal Rule 44.1 and The "Fact" Approach to Determining Foreign Law: Death Knell For a Die-Hard Doctrine,* 65 Mich. L. Rev. 613 (1967).

The district court's holding that the Wuerttemberg transfer of the Stiftung domicile from Jena to Heidenheim was authorized under section 87 of the German Civil Code was based on the opinions of respondents' German law experts, found more credible than the conflicting opinions of petitioners' experts. The court reached its conclusion notwithstanding unanimous agreement of German commentators that one German state may not lawfully transfer a foundation from another state which created it and where it is domiciled; and despite the fact that German courts have never held that this could be done. In the *Zeiss* litigation

in West Germany, the courts refused to hold that it could. In short, the district court's ruling was unprecedented and novel in German law, unsupported by judicial decision or authoritative commentary.

Notwithstanding, the court of appeals did not consider the many German treatises and commentaries referred to and extensively quoted by the parties, but went about reviewing the district court ruling in the most perfunctory fashion. It made no independent investigation of the German materials and sources, but instead treated the district court ruling as a finding of fact, merely parroted that court's analysis of the German law, and approved it because that court had found respondents' experts more credible than petitioners' (App. D, p. 4523).*

The court of appeals thus abdicated its function as a reviewing court under Rule 44.1 and established a dangerous precedent. Review of foreign law determinations is always difficult, but especially so where, as here, the foreign law questions have never been decided by the courts of the foreign jurisdiction and where the rules announced by the district court are wholly unprecedented. In such a case, responsible review demands that the court of appeals itself carefully investigate the foreign law sources. This is particularly important in the Second Circuit, where the court of appeals is called upon to review determinations of foreign law probably more frequently than in any other circuit. This Court, exercising its supervisory power, should promptly and plainly proclaim the necessity for independent investigation under Rule 44.1.

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* Credibility and demeanor are, of course, irrelevant in determining foreign law, at least where there is no dispute as to the authenticity of the sources. Cf. Miller, *supra*, 65 Mich. L. Rev. at 656-61, 688-92.

III

Whether section 33(b)(7) of the Lanham Act provides an antitrust misuse defense to trademark enforcement and the scope of the equitable antitrust misuse defense raise important questions of federal law which have not been, but should be, settled by this Court.

The decisions below so eviscerate the antitrust misuse defense that for all practical purposes it is read out of the trademark law.

Section 33(b)(7) of the Lanham Act (15 U.S.C. 1115b (7)) provides as a defense in trademark law that "the mark has been or is being used to violate the antitrust law" (Supp., *infra*, p. 29). The decisions here are, we believe, the first—certainly the first by a court of appeals—holding that statutory defense available only to refute the effect of an incontestable registration as conclusive evidence of trademark ownership. And although the defense is held still available against trademark enforcement as a matter of equity, the decisions are the first which hold that despite the fact that a mark is integrally involved in antitrust violations, it will be enforced unless the mark, separate and distinct from the goods it identifies, itself was the instrumentality of the violations.

These are important questions of federal law never considered by this Court. We believe they were erroneously decided. If the decisions below are followed, the misuse defense will, contrary to Congress' intent, become a nullity. Review by this Court is therefore necessary.

There is no question that the "Zeiss" trademarks are extraordinarily valuable, and that American dealers are therefore eager to handle "Zeiss"-marked goods and be appointed authorized "Zeiss" dealers. Nor would dealers

be interested to obtain Heidenheim goods, however excellent, without the "Zeiss" marks; for unmarked goods would naturally be suspect. These are the significant factors which enabled respondents to impose anticompetitive restraints on their American dealers.

The antitrust violations which respondents committed by use of the "Zeiss" marks were quite significant. Using the marks as bait, Heidenheim attempted to coerce Jena into a cartel arrangement for joint use of the marks and division of the world "Zeiss" markets. Together with their American distributors, respondents boycotted a Berlin firm because it had dared to ship Jena "Zeiss" goods to the United States. Respondents and their American distributors combined with United States franchised "Zeiss" dealers to maintain prices on trademarked goods, to limit dealers to specific territories and customer classes, and in other ways to restrict dealer competition. Respondents and their American distributors tied in the sale of certain "Zeiss" goods to purchase of other goods, submitted bids to governmental agencies fraudulently represented to be competitive with dealer bids, and discriminated in prices among dealers.

The district court rejected all this proffered evidence. It did so because petitioners could not meet the burden imposed by the court to establish first that the "Zeiss" trademarks, separate and distinct from the goods, were themselves "the basic and fundamental vehicle required . . . to accomplish the violations" (App. F, p. 13). When petitioners failed to satisfy this impossible burden, the court dismissed the defense. The court of appeals affirmed without discussion.

The rationale of the district court decision was twofold. First, it held that section 33(b)(7) is available only to refute the ownership evidentiary effect of a trademark registration but provides no defense to trademark enforcement. This construction, however, is directly opposed to

the declaration of Senator O'Mahoney (the member of Congress responsible for including the defense in the Lanham Act), made without contradiction from his Senate colleagues, that that subsection supplies "a defense to an infringement suit as well as . . . a ground of contestability". 92 Cong. Rec. 7873 (1946). The commentators have supported this view. See Timberg, *Trademarks, Monopoly, and the Restraint of Competition,* 14 Law and Contemporary Problems 323, 359 (1949). And so have the courts which have had occasion to consider the subsection. *Forstmann Woolen Co.* v. *Murray Sices Corp.*, 10 F.R.D. 367 (S.D.N.Y. 1950); *G. D. Searle & Co.* v. *Institutional Drug Distributors, Inc.*, 151 F.Supp. 715 (S.D. Cal. 1957); *Sanitized Inc.* v. *S. C. Johnson & Sons, Inc.*, 23 F.R.D. 230, 232 (S.D.N.Y. 1959); *Phi Delta Theta Fraternity* v. *J. A. Buchroeder & Co.*, 251 F.Supp. 968 (W.D. Mo. 1966). Moreover, since other defenses specified in section 33(b), such as fraud and abandonment, are indisputably available as defenses to trademark enforcement, the niggardly reading of subsection (7) of Section 33(b) is wholly unwarranted.

Having eliminated the statutory defense, the district court moved to demolish the equitable misuse defense, which it conceded remains available. It did this by first belittling the role of trademarks as potential instruments for anticompetitive restraint and then, on that basis, establishing a burden of proof of misuse which can be satisfied, if at all, only in the most egregious instances.

The district court, however, grossly understated the anticompetitive potential of a trademark. It is by no means true that "the opportunity for effective antitrust misuse of a trademark . . . poses a far less serious threat to the economic health of the nation" than does that of a patent and that "denial of . . . exclusive right to the use of . . . trademark is not essential to the restoration of competition" (App. F, pp. 11-12). In *FTC* v. *Procter &*

Gamble Co., 386 U.S. 568 (1967), this Court, approving an FTC order prohibiting Procter & Gamble's acquisition of the valuable Clorox mark, recognized how easily trademark advertising might be used to erect substantial anticompetitive barriers to new entry into markets. Similar considerations have informed the decisions in *Smith* v. *Chanel, Inc.*, 402 F.2d 562 (9th Cir. 1968); *Societe Comptoir de l'Indus., etc.* v. *Alexander's Dept. St.*, 299 F.2d 33, 37 (2d Cir. 1962); *Standard Brands* v. *Smidler*, 151 F.2d 33, 37 (Frank, J. concurring) (2d Cir. 1945). The serious anticompetitive consequences of trademark misuse have also been noted in economic treatises and legal writing. Chamberlin, *The Theory of Monopolistic Competition*, 56-62 & app. E (8th ed. 1962); Brown, *Advertising and the Public Interest: Legal Protection of Trade Symbols*, 57 Yale L.J. 1165 (1948); Timberg, *Trademarks, Monopoly, and the Restraint of Competition*, 14 Law and Contemporary Problems 323, 359 (1949); Livermore, *On Uses of a Competitor's Trademark*, 20 Stanford L. Rev. 448 (1968); Note, *Trade-marks and the Antitrust Laws*, 68 Harv. L. Rev. 895 (1955).

The cavalier dismissal of the potentials for trademark antitrust misuse was, to say the least, most naive. It was this simplistic premise, so casually indulged by the district court, which nevertheless led to the gutting of the misuse defense below. The questions raised are undeniably important and have never been considered by this Court. They should be considered and settled.*

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*Of course, courts should be reluctant to honor the misuse defense when asserted by a trademark "pirate". But that was not the case here. The court below held that there was no showing of fraud or palming off and that petitioners had not acted in bad faith. The sound exercise of judicial discretion required that the court at least strike a balance between the competing interests, cf. *Albert Bell & Co.* v. *Catalda Fine Arts, Inc.*, 191 F.2d 99, 106

(Footnote continued on following page)

IV

The refusal below to permit concurrent use of the "Zeiss" marks on Jena goods violates established trademark principles and calls for this Court's exercise of its supervisory power.

In view of respondents' long acquiescence in and encouragement of the use of the "Zeiss" marks on Jena goods and the American public's interest in continued access to such goods under those marks, the failure of the decisions below to permit joint use of the marks by the parties plainly violates established principles of trademark law.

For six years after they first claimed ownership of the "Zeiss" name and marks (that is, from 1948 to 1954), respondents not only allowed Jena to continue to use the marks on the goods of the now nationalized Jena Works, they vigorously encouraged Jena to use them. Their motivation was a very simple one: Heidenheim production was scanty, Zeiss goods were urgently needed in the West to maintain the "Zeiss" goodwill, and Jena was the only available source. Only in 1954, when Heidenheim's productive capacity was sufficient, did respondents demand that Jena stop using the marks; and when Jena refused to stop, respondent sued in the West German courts.

In the United States, respondents' laches and acquiescence were even more egregious. The West German injunction respondents obtained applied only to West Germany; United States commerce was not affected. Jena continued to sell Zeiss goods here as always. The Attorney General, who claimed ownership in the "Zeiss" marks

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(Footnote continued from preceding page)
(2d Cir. 1951), and shape a decree that would minimize confusion from concurrent use of the "Zeiss" marks while denying respondents exclusivity because they used the marks in violation of the antitrust laws.

under a World War I vesting order, did try to stop such sales in 1955, but Jena's American distributors sued in the District of Columbia courts and, in 1958, obtained a judgment declaring the World War I vesting order ineffective, rejecting the Attorney General's claim and enjoining him from interfering with "Zeiss"-marked imports from Jena. *Ercona Camera Corp.* v. *Rogers,* 120 U.S.P.Q. 100 (D.D.C. 1958), *aff'd sub. nom. Rogers* v. *Ercona Camera Corp.,* 277 F.2d 94 (D.C. Cir. 1960). The District of Columbia court concluded, *inter alia,* that Jena goods bearing the "Zeiss" trademark were "in all respects what that mark has always signified . . . to the trade and consuming public in the United States".

Significantly, although respondents retained special Washington counsel to keep fully informed of the *Ercona* action and assisted the Attorney General in his defense, they took no steps to intervene or to assert that they, rather than the Attorney General, owned the "Zeiss" marks. It was not until 1962, after petitioners had freed the marks from the Attorney General's claim, that respondents first sued in an American court to prevent Jena from using them.

In such circumstances, long honored principles of trademark law plainly require that the courts not bar the continued use of the "Zeiss" marks on Jena goods. Respondents exploited Jena's resources for years, used its goods to promote and enhance the "Zeiss" good will, in short profited from Jena's effort. Only when Jena was no longer useful to them did they claim infringement. Before they did, about $4,000,000 of Jena goods bearing the "Zeiss" trademarks had been sold and extensively promoted and advertised in the United States under the "Zeiss" trademarks. At great expense and effort, Jena had liberated the "Zeiss" marks from the adverse claim of the Attorney General. And at all times, as the court below found, petitioners were using the "Zeiss" marks in

the good faith belief that they were entitled to do so; and in no respect did they deal fraudulently or try to palm Jena goods off as respondents'. (Indeed, by primarily using the traditional "Carl Zeiss *Jena*" mark, petitioners underscored the Jena origin of the goods.) A decree permitting concurrent use of the marks by both parties was clearly required. See, *e.g., Dwinell-Wright Co.* v. *White House Milk Co.*, 132 F.2d 822 (2d Cir. 1943); *France Milling Co.* v. *Washburn-Crosby Co.*, 7 F.2d 304 (2d Cir.), *cert. denied*, 268 U.S. 706 (1925); *Ambrosia Chocolate Co.* v. *Ambrosia Cake Bakery, Inc.*, 165 F.2d 693 (5th Cir. 1947), *cert. denied*, 333 U.S. 882 (1948); *William H. Keller, Inc.* v. *Chicago Pneumatic Tool Co.*, 298 Fed. 52 (7th Cir. 1923), *cert. denied*, 265 U.S. 593 (1924); cf. *Taylor* v. *Salt Creek Consol. Oil Co.*, 285 Fed. 532, 543-44 (8th Cir. 1922).

Moreover, a joint use decree was the only way to protect the interests of the American public. For more than half a century (until 1969, when the judgment below was entered), Americans were able to purchase the high quality optical and precision mechanical instruments from Jena under the "Zeiss" marks, and for fifteen of those years (from 1954 to 1969) they were able to buy such goods, of the highest Zeiss quality, from two sources, Jena and Heidenheim. Thus, the "Zeiss" marks afforded guarantees to the public as to the quality of the goods and their origin; and the two sources enabled them to enjoy the benefits of a freer competition than otherwise would have prevailed. See Ebb, "Patent and Trademark License Agreements in the Common Market", in Rahl, ed., *Common Market and American Antitrust*, p. 293 (1970).

The decree below terminated this order of things. Prior purchasers of "Carl Zeiss Jena" instruments can no longer be sure that they will get goods from the same source. Those looking for repair or accessory parts for their "Carl Zeiss Jena" goods are unable to get the Jena parts they desire. And, most important, the price benefits

and other advantages which the American public enjoyed from the competition between Jena and Heidenheim have been lost to them.

The balance of public and private interests is so strongly weighted in favor of a joint use decree that it is difficult to understand why such a decree was not entered. See *Avon Shoe Co.* v. *David Crystal, Inc.*, 279 F.2d 607 (2d Cir.), *cert. denied*, 364 U.S. 909 (1960); *Triumph Hosiery Mills, Inc.* v. *Triumph Int'l. Corp.*, 308 F.2d 196 (2d Cir. 1962); *Chandon Champagne Corp.* v. *San Marino Wine Corp.*, 335 F.2d 531 (2d Cir. 1964); *Haviland & Co.* v. *Johann Haviland China Corp.*, 269 F.Supp. 928 (S.D. N.Y. 1967). And any possibility of consumer confusion could certainly have been eliminated or significantly reduced by appropriate safeguards in a joint use decree. See, *e.g.*, *Miss Universe* v. *Patricelli*, 408 F.2d 506 (2d Cir. 1969).

The injunction barring continued used of the "Zeiss" marks on Jena goods violates long honored trademark principles and calls for this Court's exercise of its supervisory power.

CONCLUSION

For the foregoing reasons, the petition for a writ of certiorari should be granted.

Respectfully submitted,

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SUPPLEMENT

Statute and Rule Involved

1. Section 33(b) of the Lanham Act (15 U.S.C. 1115b) reads, as follows:

> SEC. 33(b) (15 U.S.C. 1115b). SAME—WHEN CONCLUSIVE EVIDENCE OF EXCLUSIVE RIGHT TO USE MARK
>
> If the right to use the registered mark has become incontestable under section 15 hereof, the registration shall be conclusive evidence of the registrant's exclusive right to use the registered mark in commerce or in connection with the goods or services specified in the affidavit filed under the provisions of said section 15 subject to any conditions or limitations stated therein except when one of the following defenses or defects is established:
>
> (1) That the registration or the incontestable right to use the mark was obtained fraudulently; or
>
> (2) That the mark has been abandoned by the registrant; or
>
> (3) That the registered mark is being used, by or with the permission of the registrant or a person in privity with the registrant, so as to misrepresent the source of the goods or services in connection with which the mark is used; or
>
> (4) That the use of the name, term, or device charged to be an infringement is a use, otherwise than as a trade or service mark, of the party's individual name in his own business, or of the individual name of anyone in privity with such party, or of a term or device which is descriptive of and used fairly and in good faith only to describe to users the goods or services of such party, or their geographic origin; or

(5) That the mark whose use by a party is charged as an infringement was adopted without knowledge of the registrant's prior use and has been continuously used by such party or those in privity with him from a date prior to registration of the mark under this Act or publication of the registered mark under subsection (c) of section 12 of this Act: *Provided, however,* That this defense or defect shall apply only for the area in which such continuous prior use is proved; or

(6) That the mark whose use is charged as an infringement was registered and used prior to the registration under this Act or publication under subsection (c) of section 12 of this Act of the registered mark of the registrant, and not abandoned: *Provided, however,* That this defense or defect shall apply only for the area in which the mark was used prior to such registration or such publication of the registrant's mark; or

(7) That the mark has been or is being used to violate the antitrust laws of the United States (Amended Oct. 9, 1962, 76 Stat. 769).

2. Rule 44.1 of the Federal Rules of Civil Procedure reads, as follows:

DETERMINATION OF FOREIGN LAW

A party who intends to raise an issue concerning the law of a foreign country shall give notice in his pleadings or other reasonable written notice. The court, in determining foreign law, may consider any relevant material or source, including testimony, whether or not submitted by a party or admissible under Rule 43. The court's determination shall be treated as a ruling on a question of law.